

## CITY OF HAYWARD AGENDA REPORT

AGENDA DATE 01/21/03

AGENDA ITEM 5

WORK SESSION ITEM       

**TO:** Mayor and City Council

**FROM:** City Manager

**SUBJECT:** Resolution In Opposition to Governor's Proposed Shift of Vehicle License Fee Revenues

### **The state is at again!**


In order to balance the state budget, the Governor is proposing to take away a substantial amount of local revenue. As the Council is aware, owners of motor vehicles pay a tax (in lieu of a property tax) based on the value of the vehicle. The vehicle license fee (VLF) has been collected for nearly 70 years, and a constitutional amendment in 1996 reaffirmed the VLF as local revenue. Although a local revenue, the State sets the rate, collects the tax, and subsequently remits it to local agencies.

Beginning in 1998, the state authorized a reduction of the amount paid by the vehicle owner. A provision of the enabling legislation called for the State to "backfill" any subsequent decline in revenue to local agencies----that is, keep local agencies whole.

The Governor's Proposed Budget seeks to terminate this backfill provision effective February 1, continuing into fiscal year 2003-04. Statewide, this diverts about \$4 billion in local revenue to Sacramento. For Hayward, the City could lose an estimated \$2.7 million this year, and over \$5.7 million next year. To put the latter amount in perspective, on an annual basis, this would be the equivalent of cutting some 60 police officer positions, or closing five fire stations, or closing the doors altogether of the Hayward Public Library. **While these examples are not intended in any way to suggest that staff is proposing or entertaining such draconian measures, it is important to understand the magnitude of the Governor's proposal.**

The League of California Cities, the California State Association of Counties, and numerous local agencies are urging that defeat of the Governor's proposal. Only if local agencies make their views known is there any chance of defeating the Governor's proposal.

Adoption of the attached resolution is therefore recommended. If approved, the resolution will be transmitted to the Governor, the leadership of the legislature, and to our state representatives.



Jesus Armas, City Manager

Attachment

**DRAFT** *pk 1/14/03*

CITY OF HAYWARD

RESOLUTION NO. \_\_\_\_\_

Introduced by Council Member \_\_\_\_\_

**A RESOLUTION URGING THE CALIFORNIA LEGISLATURE  
TO REJECT THE GOVERNOR'S PROPOSED SHIFT OF LOCAL  
VLF REVENUES AND TO HONOR THE 1998 COMMITMENT  
TO RESTORE THE VLF**

WHEREAS, prior to 1935, cities and counties collected property taxes on motor vehicles to fund essential local public health and safety services; and

WHEREAS, in 1935, the Legislature first enacted the Vehicle License Fee (VLF) Act, replacing the property tax on vehicles with a 1.75 percent fee charged against the value of the motor vehicle; and

WHEREAS, in 1948, the rate of the VLF was increased to 2 percent of the value of the vehicle; and

WHEREAS, in 1986, the voters voted overwhelmingly to constitutionally dedicated the proceeds of the VLF to fund city and county services; and

WHEREAS, in 1998, a period of strong economic growth, the Legislature approved the use of a portion of the rapidly growing state General Fund to reduce the VLF payments of vehicle owners. This amount, known as the "offset", grew in future years to a 67.5 percent offset against the amount owed. The amount paid to local governments in lieu of the reduced VLF payment is known as the "VLF backfill"; and

WHEREAS, the 1998 legislation and subsequent enactments contain clear provisions that when insufficient funds are available to be transferred from the General Fund to fully fund the offsets and backfill the amount that the VLF offset shall be reduced and VLF payments increased; and

WHEREAS, VLF and backfill revenues constitute 15 to 25 percent of typical city and county general purpose revenues. On average, more than 60 percent of city general fund spending and more than half of county general funds go to front line law enforcement, fire, emergency medical services, and health care programs; and

WHEREAS, revenues derived from the VLF and backfill are of critical importance in funding vital local public health and safety services; and

WHEREAS, any failure by the Legislature to maintain the VLF backfill or restore the VLF will cause widespread disruption in local government services essential to the well-being of California residents and their cities and counties; and

WHEREAS, Governor Davis' proposal to divert \$4 billion in local VLF backfill payments over the next 17 months fails to honor the 1998 commitment and is a direct assault on local services that will be felt by every California resident; and

WHEREAS, shifting \$4 billion in locally controlled revenues for local services is neither equitable nor fair. No state program or department has been asked to shoulder such a disproportionate share of the budget pain. These cuts come on top of the nearly \$5 billion each year that is transferred from local services to fund state obligations; and

WHEREAS, the City of Hayward would experience the loss of \$8.4 million if the Governor's proposal is adopted, thereby having a substantial negative impact on the delivery of services to the community.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward, that if the state General Fund can no longer afford the expense of part or all of the VLF "backfill" that the Legislature and Governor of California are hereby urged to implement the provisions of current law providing for the reduction of the VLF offset in bad economic times and to restore the VLF in an amount necessary to reduce the VLF backfill.

BE IT FURTHER RESOLVED, that the City of Hayward hereby expresses its profound appreciation to the legislators who support such VLF restoration legislation.

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_, 2003

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:  
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: \_\_\_\_\_  
City Clerk of the City of Hayward

APPROVED AS TO FORM

\_\_\_\_\_  
City Attorney of the City of Hayward